

## Message Text

UNCLASSIFIED

PAGE 01 CALGAR 00050 051936Z

64

ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 FEA-01 AEC-07 AID-05 CEA-01

CIAE-00 CIEP-02 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-05 SP-02 SS-15 STR-04 TRSE-00 FRB-01 /091 W

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R 051910Z FEB 75

FM AMCONSUL CALGARY

TO SECSTATE WASHDC 1254

INFO AMEMBASSY OTTAWA

AMCONSUL TORONTO

UNCLAS CALGARY 50

EO 11652, N/A

TAGS ENRG,CA

SUBJECT FEDERAL AND PROVINCIAL GOVERNMENTS INTERVENE  
TO SAVE SYNCRUDE PROJECT

1. THE CANADIAN FEDERAL GOVERNMENT AND THE PROVINCIAL GOVERNMENTS OF ALBERTA AND ONTARIO SOMEWHAT RELUCTANTLY HAVE COME TO THE RESCUE OF THE FALTERING SYNCRUDE PROPOSAL FOR THE DEVELOPMENT OF ALBERTA S GIANT SYNTHETIC OIL SANDS. IN SIMULTANEOUS ANNOUNCEMENTS ON FEBRUARY 4 IN OTTAWA EDMONTON AND TORONTO, THE FEDERAL GOVERNMENT PROMISED DOLLARS 300 MILLION, ALBERTA AGREED TO SUPPLY DOLLARS 200 MILLION AND ONTARIO PLEDGED DOLLARS 100 MILLION TO SAVE THE PROJECT THAT IS DESIGNED TO PRODUCE 125,000 BARRELS OF SYNTHETIC CRUDE DAILY FROM A PLANT UNDER CONSTRUCTION IN THE FT. MCMURRAY AREA. CONSEQUENTLY THE THREE GOVERNMENTS WILL HAVE OWNERSHIP SHARES OF 15 PERCENT, 10 PERCENT,

UNCLASSIFIED

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PAGE 02 CALGAR 00050 051936Z

AND 5 PERCENT RESPECTIVELY IN THE VENTURE.

2. AGREEMENT CAME AFTER WEEKS OF NEGOTIATIONS DURING WHICH SYNCRUDE SAID CONTINUATION OF THE PROJECT WOULD NOT BE POSSIBLE IF NEW INVESTMENT CAPITAL WAS NOT FORTHCOMING BY JANUARY 31. THE CRISIS WAS THE RESULT OF THE WITHDRAWAL OF ATLANTIC RICHFIELD, ONE OF THE FOUR ORIGINAL PARTNERS IN THE SYNCRUDE CONSORTIUM FROM THE PROJECT. IN EDMONTON, PREMIER LOUGHEED ANNOUNCED THAT THE THREE REMAINING PRIVATE PARTICIPANTS - IMPERIAL, GULF, AND CANADIAN CITIES SERVICE - ARE BOOSTING THEIR ORIGINAL DOLLARS 1 M BILLION INVESTMENT IN THE PROJECT BY ANOTHER DOLLARS 400 MILLION, HALF OF WHICH IS IN THE FORM OF A LOAN TO THEM BY THE ALBERTA GOVERNMENT. THE THREE COMPANIES WILL NOW HAVE 31.25 PERCENT, 16.75 PERCENT, AND 22 PERCENT OWNERSHIP RESPECTIVELY IN THE PROJECT.

3. OTHER AGREEMENTS ANNOUNCED WERE THAT THE FEDERAL

GOVERNMENT WOULD GUARANTEE THAT PROVINCIAL TAXES AND ROYALTIES PAID BY SYNCRUDE WILL BE DEDUCTABLE FOR FEDERAL INCOME TAX PURPOSES. AND THAT SYNCRUDE S SYNTHETIC OIL MAY BE SOLD AT WORLD PRICES NOW APPROXIMATELY DOLLARS 11.70 PER BARREL. IN ADDITION THE ALBERTA GOVERNMENT WILL PAY FOR AND OWN 100 PERCENT OF THE PROJECT S PIPELINE AND POWER PLANT.

4. ALBERTA S OPTION TO BUY ANOTHER 20 PERCENT OF THE ACTION AS AGREED TO IN THE ORIGINAL UNDERSTANDING BETWEEN THE PROVINCE AND ALBERTA REMAINS IN FORCE, AND THE PROVINCE S INTEREST IN SYNCRUDE EVENTUALLY COULD REACH 36 PERCENT IF THIS OPTION IS EXERCISED AND IF THE PROVINCE DECIDES TO CONVERT ITS DOLLARS 200 MILLION LOAN INTO WORKING EQUITY.

5 . THE GENERAL RESPONSE TO THE NEW ARRANGEMENTS BY UNCLASSIFIED

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PAGE 03 CALGAR 00050 051936Z

THE OIL AND GAS INDUSTRY IN ALBERTA IS THAT SYNCRUDE PROJECT IS A RISKY ONE FOR EITHER PRIVATE OR PUBLIC SECTOR PARTICIPATION. MOST REPRESENTATIVES FEEL THAT THE DECISION OF OTHER COMPANIES NOT TO SUPPORT THE PROJECT FORCED FEDERAL AND PROVINCIAL GOVERNMENT INTERVENTION INASMUCH AS DEVELOPMENT OF THE ALBERTA OIL SANDS IS AN INTEGRAL PART OF ENERGY PLANNING IN CANADA. PRIMARY CONCERNS ARE (A) THAT THERE IS

NO ASSURANCE THAT ADDITIONAL FINANCIAL INFUSIONS  
MAY NOT BE REQUIRED TO MATCH RISING PRODUCTION COSTS,  
AND (B) ANY REDUCTION IN WORLD OIL PRICES, AS  
PROPOSED BY THE UNITED STATES AND OTHER COUNTRIES  
COULD PROFOUNDLY DISTURB THE SYNCRUDE FORMULA.

6. BACKGROUND AIRGRAM BEING AIRPOUCHED  
HALL

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NNN

## Message Attributes

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**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 05 FEB 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
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